Giant ITT Merger Spawns Election-Year Controversy

By Curt Matthews
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The biggest merger in United States corporate history has spawned a significant election-year controversy.

The 1969 Wall Street marriage that joined International Telephone and Telegraph Corp. (assets $6.7 billion) with Hartford Fire Insurance Co. (assets $2 billion) has already produced these offspring:

• A challenge by the antitrust division of the Justice Department that last year forced ITT to give up $1 billion in various corporate assets—the largest antitrust settlement on record.

• A potential threat to the pending Senate confirmation of Richard G. Kleindienst as Attorney General because of his alleged role in negotiating the antitrust settlement, a settlement considered highly favorable to ITT despite the record divestiture involved.

• A secret memorandum prepared by ITT's chief lobbyist in Washington indicating that the company pledged a large sum—possibly as much as $400,000 in cash and services—for the Republican convention in San Diego in turn for kind treatment in the antitrust settlement.

• A full blown Securities and Exchange Commission investigation into a $1,500,000 sell off of ITT stock by seven executives of the company who sought to avoid potential losses on their holdings as a result of the antitrust settlement.

Nader Sues

Although the various controversies related to the ITT-Hartford merger have been simmering for several months, they boiled over this week when columnist Jack Anderson and his associate, Brit Hume, disclosed "a personal and confidential" intracompany memorandum linking the favorabel antitrust settlement of last July with ITT's pledge to help underwrite some costs of the GOP convention this year.

Anderson followed this disclosure with allegations that Kleindienst, contrary to several previous statements, had met "at least a half-dozen times" with a director of ITT to help work out the antitrust settlement that allowed ITT to keep Hartford Fire—a highly prized acquisition because it generates $1 billion cash flow each year in the form of premium payments.

Top level personnel in the administration of President Nixon (including former Attorney General John N. Mitchell and Presidential assistant H. R. (Bob) Haldeman) have been implicated in these most recent turns in a winding path of controversy reaching back to December, 1968, when ITT first announced intention to merge with Hartford Fire Insurance Co.

That announcement produced two legal challenges and several months of mixed corporate and political infighting. First, consumer champion Ralph Nadar filed suit to block the merger, claiming that ITT's past performance of price fixing, reciprocity, and similar questionable dealings made it an "unfit" parent for Hartford Fire.

The Nader suit, filed in Hartford, Conn., said the ITT-Hartford merger was not in the interest of Hartford employees, stockholders or the public in general.

The second legal challenge to the merger came from the Justice Department which noted that the proposed acquisition by ITT would join the fourth largest insurance company and the eighth largest industrial firm in the United States. This suit was brought in New Haven in August, 1969.

Justice Settles

The then assistant attorney general for antitrust, Richard W. McLaren, pressed the suit as an opportunity to get a definitive Supreme Court judgement on the applicability of the clayton antitrust law to conglomerate type mergers.

The suit was one of three filed by Justice against recent ITT acquisitions. The other two suits challenged ITT's acquisition of Canteen Corp., a vending and automatic equipment manufac- Corp., a diversified manufacturer whose principal business is fire protection systems.

Throughout 1970 and into the following year, the Justice Department pressed efforts to break up at least a part of the giant ITT telecommunications - industrial complex. Although it lost in the lower courts it appealed to the high courts and by May of last year the Grinnell case was before the Supreme Court. An appeal to the high court of the Canteen case was being considered and on several occasions McLaren said that the ITT-Hartford case could well break new legal ground for the applicability of the Clayton Act.

Then abruptly, on July 31 last year, the Justice Department announced its settlement with ITT that allowed the firm to retain Hartford Fire but forced divestiture of $1 billion in other ITT assets.

Announcement of the settlement was made at noon on a Saturday. When the New York Stock Exchange opened on Monday, ITT's

common shares fell as much as 10 points each and some preferred issues were off as much as 15 points a share.

However, it soon became apparent that the market had overreacted. Financial analysts offered opinions that the settlement was not as adverse as the market had appeared to indicate. They pointed out that ITT got essentially what it wanted: the billion dollars a year cash flow represented by insurance premiums paid to Hartford Fire. The stock recovered.

No Explanation

Access to such a reliable source of cash—especially in the slack economy months of 1971—was a rich plum for ITT, a company that needs money, and lots of it, to advance its ambitious program of mergers and acquisitions on a world-wide scale.

What ITT was forced to give up—Canteen Corp., the fire protection division of Grinnell Corp., Avis Rent-A-Car; ITT-Levitt & Sons Inc. (a home building subsidiary) and two smaller insurance subsidiaries, ITT-Hamilton Life Insurance Co. and ITT Life Insurance Co. of New York—were business operations with neither the broad potential nor the immediate cash advantages of a Hartford Fire.

The change in the Justice Department's position (from pursuing a major Supreme Court decision on antitrust law to an out-of-court settlement on terms consistent with ITT's corporate aims) has never been fully explained.

However, the memorandum uncovered by Anderson and Hume and the evidence of bi-level negotiations to settle the ITT-Hartford antitrust suit, has shed new light on the developments of last July.

Hume says that Felix Rohatyn, an ITT director who met with Kleindienst on a number of occasions to discuss the "business and economic side" of the merger, contends that McLaren was sometimes in the dark about what he (Rohatyn) and Kleindienst were doing.

McLaren, for his part, has insisted that he was not pressured from the top to seek an out-of-court settlement. and that he and his staff negotiated the settlement.

Evidence produced by Anderson and Hume indicates that McLaren's efforts may have been undercut as early as March, 1971, when Kleindienst and Rohatyn held their first meetings.

Later, according to the secret ITT memo disclosed last Tuesday, the company's top lobbyist, Dita Beard, was successful in enlisting the services of Attorney General Mitchell in behalf of a favorable ITT settlement.

Referring to ITT's commitment of cash and services for the GOP convention, Mrs. Beard wrote: "I am convinced that our noble commitment has gone a long way toward our negotiations on the mergers eventually coming out as Hal (Harold Geneen) wants them. Certainly the President has told Mitchell to see that things are worked out fairly."

Mrs. Beard told Hume last week that she met with Mitchell last May in Kentucky and discussed terms of the merger settlement for more than an hour. The eventual settlement, she said, conformed to those terms she and Mitchell discussed.

Mitchell, who has resigned as Attorney General effective yesterday to guide President Nixon's campaign for re-election, says he met with Mrs. Beard at the governor's mansion in Kentucky ans spoke briefly with her about the ITT-Hartford antitrust case, but he insists that the conversation was neither substantive nor conclusive.

The settlement announced by the Justice Department last July 31 has not only come a matter of political controversy but also is the focal point of an active SEC investigation into stock dealings by ITT executives in the weeks just prior to the settlement.

As disclosed last August by the St. Louis Post-Dispatch, seven top executives of the company sold twice as much ITT stock in the 30 days prior to the settlement as company insider's had sold in the precious five-and-a-half months.

Last November, the SEC took statements from Geneen and other executives on the circumstances surrounding the transactions; however, as a matter of policy the SEC refuses to confirm or deny that it has an investigation in progress.

By selling their personal holdings, the ITT executives successfully avoided hundreds of thousands of dollars in potential losses when the value of ITT shares dropped immediately after the July 31 announcement.

Although ITT has made an official statement that none of the executives were aware of the pending settlement, the dealings between Rohatyn and Kleindienst and the June 25 memorandum prepared by Mrs. Beard on her meeting with Mitchell indicate broad involvement of personnel at ITT in what eventually became the ITT-Hartford antitrust settlement.